

ICPS newsletter®

Political crisis leads to worsening economic expectations

From February to April 2007, the Consumer Confidence Index (CCI) in Ukraine remained practically flat. In April, the CCI registered 92.3. A CCI value below the 100-mark shows that the majority of Ukrainians continue to feel pessimistic

The survey revealed a decline in economic expectations among Ukraine's consumers. In April, the Index of Economic Expectations (IEE) was 88.0, 4.1 points below the value registered in February. Economic expectations deteriorated as a result of a sharp increase in negative expectations among Ukrainian consumers of the economy's short-term prospects. The index x3 fell 13.7 points from February to April 2007, to 76.6, a record-low value since September 2006. Such a sharp decline in economic expectations was apparently in response to the aggravated political situation over the President's call for pre-term Verkhovna Rada elections.

Despite extremely pessimistic short-term economic expectations, evaluations of their current financial standing improved among Ukrainian consumers: the Index of the Current Situation (ICS) rose to 98.8 in April, 6.4 points above the value registered in February. The Index of Propensity to Consume (x5), which shows the readiness of Ukrainians to purchase large household items, was 110.0 in April, a record high for the past 12 months. The opposite trends in

the ICS and the IEE shows that Ukrainian consumers are not inclined to link their well-being to the economic situation in the country.

Consumer confidence in Southern Ukraine deteriorated steeply. In April, the CCI for southern oblasts was 92.0, 13.5 points below the value registered in February and a record low since 2001. As in other regions, the decline in consumer confidence in southern oblasts was mainly the result of worsening economic expectations: this index plunged 20.4 points from February to April, to 90.4.

Economic expectations grew worse in all sizes of communities. The most pessimistic expectations were registered in rural areas and in major cities, where the CCI was 88.3 and 88.6. Residents of big cities, who have the most information about political events, also showed the worst short-term economic expectations: their index x3 plunged 25.8 points from February to April, to 67.8.

Consumer confidence among better-off, young Ukrainian consumers also slipped.

From February to April, the CCI of those with above-average incomes slipped 3.9 points, to 103.7, while the CCI of young consumers, aged 15–30, shrank 2.7 points, to 101.4. Still, consumer confidence in these two groups remains mostly optimistic. ■

consumer confidence—a quarterly survey of households and their opinions about the current economic situation and their own financial standing. The Consumer Confidence Index is determined through a random survey of domestic households. The poll involves 1,000 individuals aged 15–59, an age group that represents 61.3% of Ukraine's population and the country's most active consumers. A representative sample is selected by gender and age, also by type and size of settlement. The margin of error is 3.2%.

For additional information about this survey, contact Yevhenia Akhtyrko by telephone at (380-44) 484-4403 or via e-mail at eakhtyrko@icps.kiev.ua. If you would like to receive the **consumer confidence** bulletin, with a detailed quarterly analysis of the CCI in Ukraine, contact our client relations manager Andriy Starynskiy by telephone at (380-44) 484-4410, or via e-mail at marketing@icps.kiev.ua.

Project training regional NGOs to run public lobbying campaigns ends

On 30 June, a final roundtable was held under the "Methodological and Training Support for Regional NGOs in Preparing and Running Public Lobbying Campaigns" project, to discuss issues related to running public lobbying campaigns at the local level.

During the roundtable, NGOs presented the results of lobbying campaigns under the International Renaissance Foundation program called "Policy: Implementing Our Interests" and the lessons learned. Participants discussed the advantages and drawbacks of the public lobbying tools they used, various approaches to organizing work with

stakeholders and the media, and the role of analytical briefs in lobbying campaigns. NGO representatives also agreed that there was a wide range of lobbying tools at the disposal of community organizations that could be effective in solving local problems. However, the capacity of most organizations to effectively use these tools is still quite low.

The goal of this two-year project undertaken by ICPS has been to provide methodological support and training to NGOs so that they can organize and run public campaigns to lobby proposals regarding state and municipal policy.

Oleksiy Blinov: Ukraine lacks a common vision of economic priorities

Ukrainian politicians have been speaking about the need for radical economic reforms for a long time. But do top officials understand the essence of reforms? The difference between reforms and changes is that reforms need a broader strategic front and they need to take place simultaneously in several areas, notes ICPS Economic Analysis and Publications Director Oleksiy Blinov in an interview to Dialog, an information and analytical web-site. Mr. Blinov says that only a broadbased, consolidated approach to transformations can ensure the rapid growth needed for the well-being of the average Ukrainian

Dialog: What economic reforms need to be undertaken now? What should be the first changes?

Oleksiy Blinov: The list of necessary transformations is quite long. This is why I'd like to address only the most problematic issues. First of all, something has to be done with Ukraine's pension system. As you know, the demographic situation in the country is only likely to get worse over the next few years. With an aging population and shrinking numbers, pressure on a pension system built according to the soviet model will grow. At the moment, we have the "pay-as-you-go" system of pension support, where current workers pay for the pensions of current pensioners. Western countries rejected this system long ago and switched to an accumulative system, which is more evolved from the financial point-of-view.

Although we currently deduct more than 30% from salaries as pension contributions and even have special taxes to support the Pension Fund, the Fund remains short. If everything continues the way it is, the burden on the pension system can only grow and the Government will have either to make unpopular moves by introducing yet more taxes—and this will affect business—, raising the retirement age, or limiting pension growth. This will upset voters. The current pension system is doomed have significant problems in the long run.

In the majority of countries, the accumulative pension system is the foundation of that country's financial system, as pension funds contain significant amounts of money and a huge financial resource that can be an additional spur to development. In accumulative systems, pension funds are not idle: they work for the economy through the banking system.

Two more important areas that remain practically unreformed in Ukraine are education and healthcare. Since ordinary Ukrainians have to deal with these sectors in their day-to-day lives, they clearly understand that the situation is not good. In education, a key problem is that curricula still don't

match the requirements of the labor market and there are no mechanisms to ensure that they reflect the needs of a modern economy. When there is a need for new specialists, new faculties may be set up for these professions, but they don't provide a quality education. This is a serious problem, as many people who want to get a quality education have to go abroad to do so. This, in its turn, is the main cause of Ukraine's current brain-drain. Having obtained a degree in another country, young people often decide to stay there.

As for the healthcare system, it hasn't been "free" for a long time. Ukrainians have to pay for nearly all services that this system provides. Yet the quality of those services is not guaranteed at all. In terms of reforming this system, there are several possible options, such as the transition to insured medicine—which is not necessarily a good option. At the moment, however, there are no plans to reform this sector, except for some attempts to increase public funding for healthcare. But that doesn't tackle the real problem at all.

D: How significantly is the Ukrainian economy tied into politics, in your opinion? How will the current political crisis affect the economic situation?

OB: For me, it makes sense to divide the impact of the political crisis on the Ukrainian economy into two parts. In terms of direct impact on the economy, we don't see any significant effect from this crisis on actual growth over the next several months. Ukraine saw similar political upheavals in recent years, such as the failure to form a Verkhovna Rada coalition in 2006 and the 2004 presidential election. Yet the economy, even its most sensitive components, such as the investment climate, is long used to an unstable political situation in Ukraine and reacts fairly normally to these events.

As for the impact on long-term economic development and reforms, we can see that, at the moment, the state machine is quite blocked. This did not start on 2 April 2007, but much earlier, as a large part of the resources of the entire government apparatus was channeled into the fight

among different branches of government for the re-distribution of powers, rather than developing plans for urgent reforms. At the moment, the laws being adopted by the Verkhovna Rada are undoubtedly necessary for any further important decisions. But, because the Verkhovna Rada's status has not been settled yet, it's not clear whether these laws are legitimate or not. In short, the country is losing valuable time to adopt the legislation needed to reform the economy.

D: If the reforms you name are undertaken, what prospects does the country have? Will Ukraine be able to turn itself into an "Eastern European economic tiger"?

OB: If we analyze the economic miracles of various countries over the past 50 years, such as post-war Germany and the economies of Asian countries—plus the experience of Central and Eastern European economies, although reforms implemented in those countries had a mixed impact on their economies—, all these economies had one trait in common. In every instance, there was a definite, comprehensive idea of growth. Development was not based on some landmark decision or separate formula, but the Governments of these countries had a clear vision of the future of their economies and the environment in which those economies would function. And policies were developed on the basis of this vision. For several years, these countries implemented reforms in one direction. Since this reform was coordinated, it made it possible to gain powerful long-term results.

Ukraine does not have such a vision. Ukraine does not have a national consensus on priority development areas. We keep hearing plenty of cliches about high technologies, but if we ask what these technologies are, very few politicians and Government officials can explain what they mean. Most often, talk is simply about supporting specific sectors. Yet nobody analyzes whether these particular sectors will be competitive in the international arena. If we undertake reform in only some sectors, the most we can gain from that is to improve the situation in these sectors. Such reforms don't usually lead to anything that could be termed an "economic miracle." Only a broadbased, consolidated approach to transformation can ensure Ukraine rapid economic growth and overall well-being. ■

Read full version of this interview online at http://dialogs.org.ua/ua/dialog.php?id=66&op_id=1129#1129 (in Ukrainian).